



Joint Legislative Audit Committee  
Office of the Auditor General



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**FINANCIAL AUDIT REPORT**  
**CALIFORNIA MARITIME ACADEMY**  
**YEAR ENDED JUNE 30, 1978**

The regulations of the Federal Office of Revenue Sharing require governments receiving revenue sharing funds to have audits of their financial statements not less than once every three years. This audit assists in fulfilling the audit requirements necessary to continue California's eligibility for federal revenue sharing funds.

Our examination was made in accordance with generally accepted auditing standards and included studying and evaluating the system of internal control. This study and evaluation disclosed several conditions which we believe to be weaknesses and were considered in determining the nature, timing, and extent of our audit tests. Presentation of these conditions, however, does not modify our opinion on the financial statements.

REPORT TO THE  
CALIFORNIA LEGISLATURE

REPORT OF THE  
JOINT REVENUE SHARING TASK FORCE  
TO THE  
JOINT LEGISLATIVE AUDIT COMMITTEE  
AND THE  
DEPARTMENT OF FINANCE

429

FINANCIAL AUDIT REPORT  
CALIFORNIA MARITIME ACADEMY  
YEAR ENDED JUNE 30, 1978

JULY 1979



# California Legislature

## Joint Legislative Audit Committee

GOVERNMENT CODE SECTION 10500 et al

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RICHARD ROBINSON  
CHAIRMAN

July 30, 1979

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The Honorable Speaker of the Assembly  
The Honorable President pro Tempore of the Senate  
The Honorable Members of the Senate and the  
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully submits the  
Auditor General's financial audit report of the California  
Maritime Academy, Year Ended June 30, 1978.

The auditors are Robert Hamric, CPA; William Woodward, CPA;  
George Foxworth; and Phyllis Ries.

Respectfully submitted,

RICHARD ROBINSON  
Assemblyman, 72nd District  
Chairman, Joint Legislative  
Audit Committee

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## INTRODUCTION

In compliance with federal Office of Revenue Sharing regulations, we have conducted a financial audit of the California Maritime Academy. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code and in the Department of Finance by Section 13294 of the Government Code.

The principal objective of the California Maritime Academy is to provide well-trained, college-educated officers for the maritime industry. The instruction program provides general education classes and specialized courses to prepare students for careers as licensed officers in the merchant marine and the maritime industry. The legal provisions for the academy are found in Division 6, Part 43 of the Education Code, commencing with Section 70000.

The programs of the California Maritime Academy are supported by the General Fund, Capital Outlay Fund for Public Higher Education and federal and state financial aid programs.

## AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature  
and the Department of Finance:

We have examined the combined balance sheets of the California Maritime Academy as of June 30, 1978, and the related statements of revenues, expenditures and changes in operating clearing for the year then ended. Except as set forth in the following paragraphs our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The balance sheets of the California Maritime Academy include the Special Deposit Fund. The financial records of this fund are incomplete; therefore, we are unable to obtain sufficient evidence to form an opinion. Accordingly, we do not express an opinion on the Special Deposit Fund.

The balance sheets of the California Maritime Academy also include the Midshipman's Loan Fund. Because of procedures (internal control and accounting) used by the academy, we were unable to obtain supporting evidence to verify the Capital Fund balances. Accordingly, we do not express an opinion on the Midshipman's Loan Fund.

In our opinion, except as stated in the preceding paragraphs, these financial statements present fairly the financial position of the California Maritime Academy at June 30, 1978, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying combined balance sheets captioned "Total - Memorandum Only" for June 30, 1978, are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying combined balance sheets and statements of revenues, expenditures and changes in operating clearing for the year ended June 30, 1977, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them. Balances for the Non-Treasury Fiduciary Funds as of June 30, 1977, are not shown.

In connection with our examination, we also made a study and evaluation of the California Maritime Academy's system of internal accounting control. Our findings are set forth under the heading "Comments and Recommendations."

Joint Revenue Sharing Task Force

A handwritten signature in cursive script that reads "Wesley E. Voss".

Wesley E. Voss  
Assistant Auditor General

Date: November 22, 1978

Staff: Robert Hamric, CPA  
William Woodward, CPA  
George Foxworth  
Phyllis Ries

CALIFORNIA MARITIME ACADEMY  
COMBINED BALANCE SHEET  
TREASURY FUNDS  
ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1978  
(With Unaudited Amounts for 1977)

ASSETS	GOVERNMENTAL FUNDS		FIDUCIARY FUND		ACCOUNT GROUP		TOTAL	
	General Fund	Capital Outlay Fund For Public Higher Education	Special Deposit Fund	General Fixed Assets	(Memorandum Only) June 30, 1978	June 30, 1977		
Cash	\$ 55,417	\$ -	\$ 35,296	\$ -	\$ 90,713	\$ 13,042		
Revolving Fund Cash	1,527	-	-	-	1,527	5,646		
Cash in State Treasury	-	-	13,803	-	13,803	(50)		
Cash on Hand	500	-	-	-	500	500		
Accounts Receivable - Reimbursements	41,524	-	-	-	41,524	111,953		
Student Loans Receivable	-	-	208,416	-	208,416	-		
Prepayments to Other Funds	43,180	-	-	-	43,180	1,187		
Expense Advances to Employees	1,048	-	-	-	1,048	824		
Land	-	-	-	22,501	22,501	22,501		
Improvements	-	-	-	4,084,684	4,084,684	3,468,466		
Equipment	-	-	-	795,204	795,204	707,956		
Advances to Architecture Revolving Fund	-	6,511,356	-	-	6,511,356	4,766,042		
<b>TOTAL ASSETS</b>	<b>\$ 143,196</b>	<b>\$ 6,511,356</b>	<b>\$ 257,515</b>	<b>\$ 4,902,389</b>	<b>\$ 11,814,456</b>	<b>\$ 9,098,067</b>		
<b>LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY</b>								
Liabilities:								
Accounts Payable	\$ 170,321	\$ 2,286	\$ -	\$ -	\$ 172,607	\$ 566,188		
Claims Filed	-	-	-	-	-	1,513		
College Work Study Payable	-	-	896	-	896	-		
<b>TOTAL LIABILITIES</b>	<b>170,321</b>	<b>2,286</b>	<b>896</b>	<b>-</b>	<b>173,503</b>	<b>567,701</b>		
Encumbrances Outstanding	158,664	-	-	-	158,664	-		
Fund Equity:								
Reserve for Uncleared Collections	18,133	-	-	-	18,133	7,217		
Advances to Architecture Revolving Fund	-	6,511,356	-	-	6,511,356	4,766,042		
Investment in General Fixed Assets	-	-	-	4,902,389	4,902,389	4,198,923		
Operating Clearing	(203,922)	(2,286)	-	-	(206,208)	(441,816)		
Fund Balance	-	-	256,619	-	256,619	-		
<b>TOTAL FUND EQUITY</b>	<b>(185,789)</b>	<b>6,509,070</b>	<b>256,619</b>	<b>4,902,389</b>	<b>11,482,289</b>	<b>8,530,366</b>		
<b>TOTAL LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY</b>	<b>\$ 143,196</b>	<b>\$ 6,511,356</b>	<b>\$ 257,515</b>	<b>\$ 4,902,389</b>	<b>\$ 11,814,456</b>	<b>\$ 9,098,067</b>		

The notes to the financial statements are an integral part of this statement.



CALIFORNIA MARITIME ACADEMY  
COMBINED BALANCE SHEET  
NON-TREASURY FIDUCIARY FUNDS

JUNE 30, 1978

<u>ASSETS</u>	FIDUCIARY FUNDS		<u>TOTAL June 30, 1978</u>
	<u>Golden State Service Fund</u>	<u>Midshipman's Loan Fund</u>	
Cash - Checking	\$ (825)	\$ 3,690	\$ 2,865
Cash - Savings	33,163	5,031	38,194
Investments	20,000	-	20,000
Accounts Receivable	1,049	-	1,049
Student Loans Receivable	-	18,130	18,130
Accrued Interest	-	563	563
 TOTAL ASSETS	 <u>\$53,387</u>	 <u>\$27,414</u>	 <u>\$80,801</u>
 <u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Room Deposits	<u>\$18,190</u>	<u>\$ -</u>	<u>\$18,190</u>
Fund Equity:			
Operating Reserve	-	563	563
Fund Balance - Capital	<u>35,197</u>	<u>26,851</u>	<u>62,048</u>
 TOTAL FUND EQUITY	 <u>35,197</u>	 <u>27,414</u>	 <u>62,611</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$53,387</u>	 <u>\$27,414</u>	 <u>\$80,801</u>

The notes to the financial statements are an integral part of this statement.

CALIFORNIA MARITIME ACADEMY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN OPERATING CLEARING - BUDGET AND ACTUAL  
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1978  
(With Unaudited Amounts for 1977)

	1978			1977
	Budget As Adjusted	Actual	Over (Under) Budget	Actual
<u>Sources of Financial Resources</u>				
Revenues:				
Miscellaneous Services to the Public	\$ -	\$ 2,573	\$ 2,573	\$ 486
Sale of Fixed Assets	-	551	551	573
Total Revenues <sup>a/</sup>	-	3,124	3,124	1,059
Other Sources:				
Reimbursements	1,648,692	1,649,613	921	1,268,312
Support Appropriation (Note 6)	2,243,909	2,102,739	(141,170)	2,139,553
Total Sources of Financial Resources	\$3,892,601	3,755,476	\$(137,125)	3,408,924
<u>Uses of Financial Resources</u>				
Expenditures:				
Current:				
Personal Services	\$2,316,998	2,261,731	\$( 55,267)	1,942,597
General Expense	378,861	368,550	( 10,311)	326,407
Printing	10,000	8,496	( 1,504)	9,172
Communications	32,000	40,988	8,988	36,210
Travel-in-State	16,658	17,117	459	14,748
Travel-out-of-State	3,961	3,049	( 912)	3,531
Instructional Expense	714,635	727,499	12,864	651,276
Subsistence and Personal Care	334,692	324,284	( 10,408)	243,487
Contract Services	20,000	20,000	-	20,984
Equipment	64,796	65,350	554	35,770
Minor Capital Outlay	-	-	-	30,598
Project Planning	-	-	-	6,750
Miscellaneous Expenses - Other (Note 7)	-	31,192	31,192	-
Prior Year:				
Prior Year Appropriation Adjustment (Note 8)	-	12,237	12,237	28,729
Other:				
Revenue Remitted to the General Fund (Note 9)	-	2,991	2,991	-
Total Uses of Financial Resources	\$3,892,601	3,883,484	\$ (9,117)	3,350,259
Net Increase (Decrease) in Operating Clearing During the Year		(128,008)		58,665
Operating Clearing - July 1		(75,914)		(134,579)
Operating Clearing - June 30		\$ (203,922)		\$ (75,914)

<sup>a/</sup> Revenues are not budgeted in the legislative budget bill.

The notes to the financial statements are an integral part of this statement.

CALIFORNIA MARITIME ACADEMY  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN OPERATING CLEARING - BUDGET AND ACTUAL  
CAPITAL OUTLAY FUND FOR PUBLIC HIGHER EDUCATION

FOR THE FISCAL YEAR ENDED JUNE 30, 1978  
(With Unaudited Amounts for 1977)

	1978			1977
	Budget As Adjusted	Actual	Over (Under) Budget	Actual
<u>Sources of Financial Resources</u>				
Appropriations	\$2,448,782	\$2,681,837	\$ 233,055	\$( 95,361)
Reimbursements	<u>467,400</u>	<u>62,000</u>	<u>(405,400)</u>	<u>-</u>
Total Sources of Financial Resources	<u>\$2,916,182</u>	<u>2,743,837</u>	<u>\$(172,345)</u>	<u>( 95,361)</u>
<u>Uses of Financial Resources</u>				
Expenditures:				
Current:				
Corporation Yard - Phase II	\$ 254,600	254,600	\$ -	15,000
Site Development	712,260	711,760	( 500)	-
Welding Laboratory	311,500	311,500	-	6,500
Kitchen and Dining Facility	820,650	820,650	-	-
Wharf and Boathouse	204,150	194,933	( 9,217)	-
Radar Simulation Laboratory	4,500	4,500	-	-
Upper Academy Road and Parking Lot	467,400	62,000	(405,400)	-
Mechanical Utilities System	78,422	( 15,966)	( 94,388)	141,178
Minor Capital Outlay	62,700	62,586	( 114)	-
Residence Hall	-	-	-	152,911
Electrical Distribution System	-	-	-	46,550
Faculty Office	-	-	-	( 28,371)
Administration Building	-	-	-	6,072
Physical Education Facility	-	-	-	( 1,959)
Library Addition	-	-	-	( 2,938)
Corporation Yard - Phase I	-	-	-	( 5,955)
Auditorium	-	-	-	( 77,638)
Prior Year:				
Prior Year Appropriation Adjustment (Note 8)	<u>-</u>	<u>( 26,342)</u>	<u>( 26,342)</u>	<u>( 1,679)</u>
Total Uses of Financial Resources	<u>\$2,916,182</u>	<u>2,380,221</u>	<u>\$(535,961)</u>	<u>249,671</u>
Net Increase (Decrease) in Operating Clearing During the Year		363,616		(345,032)
Operating Clearing - July 1		<u>(365,902)</u>		<u>( 20,870)</u>
Operating Clearing - June 30		<u>\$ ( 2,286)</u>		<u>\$(365,902)</u>

The notes to the financial statements are an integral part of this statement.

CALIFORNIA MARITIME ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 1978

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements reflect the financial position and results of operations of the California Maritime Academy. The statements have been prepared in conformity with generally accepted accounting principles as contained in the State Administrative Manual.

General Fund

The California Maritime Academy accounts for only its portion of the State's General Fund. The State Controller maintains central accounts for the General Fund and publishes annual consolidated General Fund statements.

Income:

Throughout the fiscal year, income is accounted on a cash basis, except appropriation reimbursements which are recorded when billed. At June 30, the accounts are adjusted to a modified accrual basis. All earned but uncollected revenues and unbilled reimbursements are accrued, except revenue receivables estimated not to be collectible within one year which are fully reserved.

Expenditures:

During the fiscal year, expenditures are accounted on a claims filed (with the State Controller) basis. Valid expenditure commitments are accrued at June 30.

Capital Outlay Fund for  
Public Higher Education

The Capital Outlay Fund for Public Higher Education serves as a depository of monies the Division of State Lands and Department of Corrections receives from oil, gas and mineral leases. When appropriated by the Legislature, these monies are available for capital outlay expenditure by institutions of public higher education.

Income:

The Federal Government reimburses the academy through the Public Works Employment Act, Title I, for construction of the upper academy road and parking lot.

Expenditures:

Capital outlay expenditures are accounted when claims are filed with the State Controller or when funds are transferred to the Architecture Revolving Fund. At June 30, all valid expenditure commitments are accrued as expenditures.

### Special Deposit Fund

Monies received or collected for specific purposes by a state agency for which no fund has been created in the State Treasury are accounted for in the Special Deposit Fund. The State Controller maintains separate fund accounts for each agency and publishes consolidated Special Deposit Fund statements.

### Income and Expenditures:

The California Maritime Academy uses the Special Deposit Fund as the depository for federal and state student financial aid funds. Both income and expenditures are accounted on a cash basis during the fiscal year. Loans receivable are recorded at the time disbursements are made. Accruals at year end are minimal.

### Liabilities

Retirement Plan: Regular employees are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the agency and employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. Retirement contributions for the year included in the expenditures-personal services account were \$244,652.

Vacation and Sick Leave: The academy does not record the costs of vacation and sick leave at the time the benefits are accumulated;

however, at the time these benefits are used, the expenditures-  
personal services account is charged.

#### General Fixed Assets

Equipment purchases are recorded as expenditures in the year of acquisition. The aggregate cost, with the exception of certain nonexpendable equipment items not on the State Administrative Manual equipment list, is capitalized in the General Fixed Assets account group. Nonexpendable equipment, with a useful life of two years or more generally valued at \$150 or over, is recorded at original cost or, if not available, at fair market value.

#### Midshipman's Loan Fund

The Midshipman's Loan Fund consists of gifts and donations of money the California Maritime Academy receives for short-term loans to midshipmen. The academy did not prepare statements for the 1976-77 fiscal year.

#### Income and Expenditures:

Both income and expenditures are usually accounted on a cash basis during the fiscal year. Accruals at year end are minimal.

#### Golden State Service Fund

The Golden State Service Fund is used to account for designated student fees, donations, room deposits required of incoming students

and miscellaneous monies. Its main purpose is to support the various approved campus clubs and activities.

Income:

Income consists of fees collected each trimester at registration. Fees are established for the year end paid in installments according to the schedule established by the administration. The Alumni Association also donates monies for distribution. Income is accounted on a cash basis.

Expenditures:

Expenditures consist of costs incurred by the various approved campus clubs and activities. These expenditures are based on an annual budget prepared by the Student Council and approved by the academy president and the Commandant of Midshipmen. Room deposit balances are refunded to graduating students. Expenditures are accounted on a cash basis.

2. ACCOUNTS PAYABLE

Accounts payable include all unpaid liabilities for goods and services received as of June 30. Accordingly they also include liabilities for which disbursement requests were submitted to the State Controller by June 30, but which had not been paid as of that date.



3. ENCUMBRANCES OUTSTANDING

Encumbrances outstanding include all valid commitments against budget appropriations for which no goods or services had been received by June 30.

4. OPERATING CLEARING

These accounts are the connecting link between the California Maritime Academy's portion of the General Fund and the Capital Outlay Fund for Public Higher Education and the central accounts which the State Controller maintains. The account balances at June 30, 1978 represent the clearing account between the California Maritime Academy and the State Controller.

5. REVENUES

Revenues collected by a state agency that is supported by an appropriation from the General Fund are considered General Fund revenues and must be remitted in total to the State Treasurer.

6. SUPPORT APPROPRIATION

Support appropriation is the portion of the General Fund allocated to the California Maritime Academy by the legislative budget act.

7. MISCELLANEOUS EXPENSES - OTHER

These expenditures were not accrued as of June 30, 1978 and are not categorized by expenditure.

8. PRIOR YEAR APPROPRIATION ADJUSTMENT

This account shows the difference between the net amount of expenditures, abatements and reimbursements accrued as of the previous June 30 and the actual amount of expenditures, abatements and reimbursements obtained during the current fiscal year (including accruals for appropriations no longer available for encumbrance).

## COMMENTS AND RECOMMENDATIONS

### Internal Accounting Control

As part of our examination we made a study of the California Maritime Academy's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist in planning and performing the examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstood instructions, mistaken judgment, carelessness or other personal factors. Control procedures whose effectiveness depends

upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to executing and recording transactions or with respect to the estimates and judgments required in preparing financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements was made in accordance with generally accepted auditing standards. This included studying and evaluating the California Maritime Academy's system of internal accounting control for the year ended June 30, 1978. This study and evaluation was designed for the purposes set forth in the first paragraph of this section of the report and would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. However, such study and evaluation disclosed the following conditions which we believe to be weaknesses.

#### Year End Adjusting Entry

The academy did not prepare the year-end adjusting entry (A-6) for Revolving Fund Cash according to the State Administrative Manual (SAM) Section 10586. During the fiscal year, the Revolving Fund is accounted on an imprest basis. That is, this fund is debited for expenses throughout the year, then reconciled at year end. By applying non-cash items to the proper accounts, the academy reduces the cash balance to agree with the

cash in the agency account with the State Treasury. Failure to make these adjustments could result in the overstatement of cash and liabilities in the agency account at year end.

Recommendation: Entry A-6 be prepared and posted as prescribed by Section 10586 of the State Administrative Manual.

#### Accounts Outside the Treasury System

The academy has six bank accounts outside the treasury system which have not been approved by the Department of Finance, Fiscal Systems and Consulting Unit. The State Administrative Manual, Sections 8002, 19462 and 19463 require express approval for all accounts maintained outside the treasury system. In addition, some of the monies in the outside bank accounts are special purpose trust funds. Section 19440 of the State Administrative Manual requires that these monies be deposited in trust in the custody of the State Treasurer, except when otherwise authorized by the Director of Finance.

Recommendation: The academy open a trust fund cash account as prescribed by Section 19440 of the State Administrative Manual since some of these funds should be on deposit with the State Treasury. In addition, the academy should request approval from the Department of Finance, Fiscal System and Consulting Unit as prescribed by SAM Sections 8002, 19462 and 19463 for those accounts maintained outside the state treasury system.

### Bank Reconciliation

The monthly bank reconciliation for all the academy's funds does not agree with applicable general ledger balances. Since the primary purpose of a bank reconciliation is to verify the actual bank balance with the book balance as recorded, any differences in amounts must be reconciled.

Recommendation: The academy reconcile cash balances on the monthly bank statements with the cash balances in the applicable general ledger.

### Revolving Fund

The academy does not consistently prepare a monthly revolving fund reconciliation report as prescribed by Section 8193 of the State Administrative Manual. This monthly report is necessary to ensure that the academy is properly accounting for all revolving fund items.

Recommendation: The academy prepare the monthly revolving fund reconciliation report as required by Section 8193 of the State Administrative Manual at the end of each month.

The academy does not maintain a revolving fund receivable ledger to account for employee advances from the revolving fund, for discounted expenditures or for advance payments requested by the vendor. Section 8192 of the State Administrative Manual requires the establishment and maintenance of a receivable ledger. This receivable ledger ensures that all advances will be identified, accounted for and cleared when collected.

Recommendation: The academy prepare and maintain a revolving fund receivable ledger as required by SAM Section 8192.

#### Purchasing Procedures

The academy does not control its purchases of goods and services by using sub-purchase orders. Employees prepare many of these sub-purchase orders after receiving the goods and services but before gaining administrative approval. When the sub-purchase orders are completed, then the stock received reports are prepared.

Recommendation: The academy prohibit its employees from acquiring goods and services before sub-purchase orders are approved, according to SAM Section 3571. Also, employees should prepare stock received reports when they receive purchases, as required in SAM Section 8410.

#### Unrecorded Liabilities

Accounts payable representing valid expenditures of at least \$31,192 were not accrued at June 30, 1978.

Recommendation: All expenditures and liabilities be accrued and recorded at year end as prescribed by SAM Section 10584.

#### Capital Outlay Fund for Public Higher Education

The balance sheet of the academy also includes the Capital Outlay Fund. Because of omissions and departures from generally accepted accounting principles and the State Administrative Manual (SAM), the advances to the Architecture Revolving Fund and accompanying

reserve were overstated by \$927,002 at June 30, 1978. As a point of comparison, these accounts were overstated by \$343,333 at June 30, 1977. We compared the academy records to those kept by the Office of the State Architect. The statements have been adjusted for these amounts.

Recommendation: The academy implement procedures and instructions as prescribed in SAM Sections 1460.5, 10430, 10454.5 and 10531 for proper accounting of the Capital Outlay Fund.

#### Non-Governmental Cost Funds Financial Statements

Non-Governmental Cost Funds financial statements were not prepared at June 30, 1978. These statements include the Special Deposit Fund, Golden State Service Fund and the Midshipman's Loan Fund. State agency executive officers are responsible for the accountability of state funds used within their organizations, as well as all other funds under their control. Sections 7950 and 7960 of the State Administrative Manual describe the required financial reports and their distribution.

Recommendation: Executive officers prepare and submit Non-Governmental Cost Funds financial statements to agencies as prescribed in SAM Sections 7950 and 7960.

#### Special Deposit Fund

The Special Deposit Fund contains the National Direct Student Loan Fund (NDSL), the Supplemental Educational Opportunity Grant (SEDG), the Basic Educational Opportunity Grant (BEDG) and the College Workstudy Program (CWS). There are serious deficiencies in the accounting for



this fund. The accounts used are improper, the various program funds are commingled and cash and fund balances for each financial aid program are intertwined. Furthermore, the academy did not reconcile the Special Deposit Fund for the 1977-78 fiscal year.

Recommendation: The academy implement the uniform system of accounting as prescribed in the State Administrative Manual beginning with Section 7110.

#### Midshipman's Loan Fund

The Midshipman's Loan Fund is used to account for outside donations and gifts which provide short-term loans to aid midshipmen at the academy. Since the academy has not maintained a record of the amounts and sources of these donated funds, the accountability of the fund cannot be determined.

Recommendation: The academy document sources for monies already received and maintain documentation for all monies as they are received.

The total amount received is recorded in the Capital Fund Balance account of the Midshipman's Loan Fund. As the academy loans these funds, it reduces the Capital Fund Balance to reflect the amount of the loan. Midshipmen's repayments increase the fund balance. Because of inadequate accounting records as described above, we were unable to verify total fund balances as donated.

Recommendation: Capital Fund balances not be charged or credited in the accounting cycle except as additions and/or decreases to total contributions occur.

Responsible persons who approve the midshipmen's loan applications also have the authority and function to sign the loan checks. Section 8080 of the State Administrative Manual prohibits the combination of these functions.

Recommendation: Persons who approve disbursements from the Midshipman's Loan Fund should be prohibited from signing the loan checks as required by Section 8080 of the State Administrative Manual.

Golden State Service Fund (GSSF)  
Account Receivable

Prior to 1974, the academy operated the bookstore through GSSF. The bookstore inventory was sold in 1974 to Mr. R. C. Woolf, who assumed the operation of the bookstore at the academy. Although R. C. Woolf does have a contract with the academy for operating the bookstore, the academy has maintained no sales documents. At June 30, 1978, the amount of \$1049 from the sale of inventory was still recorded as an account receivable, but no invoice, contract or payment terms were available to support this account receivable.

Recommendation: The academy determine the amount due and implement a collection procedure to clear the balance owed. In addition, the academy develop procedures which will assure prompt and accurate recording of all receivable amounts and implement collection procedures as described in Section 8776.5 of the State Administrative Manual.

### Program Operations

The student activity accounts in the GSSF do not contain historical data and operating procedures for implementing the programs of the Golden State Service Fund.

Recommendations: Each student activity account have on file in the Commandant's office the applicable historical data and operating procedures to be followed.

The foregoing conditions were considered in determining the nature, timing and extent of audit tests to be applied in our examination of the financial statements, and this presentation of such conditions does not modify our opinion of such financial statements.

## AUDIT ADJUSTMENTS

The aforementioned financial statements contain adjustments to the following accounts:

### GENERAL FUND

- Revolving Fund Cash
- Accounts Receivable - Reimbursements
- Expense Advances to Employees
- Improvements
- Accounts Payable
- Encumbrances Outstanding
- Appropriation Reimbursements
- Reserve for Investment in Fixed Assets
- Appropriation Expenditures

### CAPITAL OUTLAY FUND

- Advances to Architecture Revolving Fund
- Reserve for Advances to Architecture Revolving Fund
- Operating Clearing
- Prior Year Appropriation Adjustments

The adjustments were necessary to correct the academy's accrual entries. The academy concurred with the suggested journal entries and accordingly adjusted the financial records to reflect these adjustments.

## CALIFORNIA MARITIME ACADEMY

P. O. BOX 1392  
VALLEJO, CA 94590



6 July 1979

Robert L. Hamric  
Audit Manager  
Department of Finance  
Joint Revenue Sharing Task Force  
1025 "P" Street  
Sacramento, CA 95814

Subject: Response to Recommendation Made by Joint Revenue  
Sharing Task Force for Year Ended June 30, 1978

Dear Mr. Hamric:

Listed below is a summary of corrections to your recommendations:

Year End Adjusting Entry

We did not prepare the year-end adjusting entry (A-6) for Revolving Fund Cash according to the State Administrative Manual Section 10586. This entry will be made for the fiscal year 6-20-79 and all other fiscal years to come.

Accounts Outside the Treasury System

The Academy no longer has six bank accounts outside the treasury system. It had a bank account at Bank of America, 200 Georgia Street, Vallejo, CA for the Title I project. The bank account has been closed.

The Academy presently has a Title II Project checking account at Vaca Valley Bank, Vallejo Office, 332 Georgia Street, Vallejo, CA. The project will be terminated on July 31, 1979 and the checking account will be closed.

The Academy presently has a checking account for short-term loans. It is called the California Maritime Academy Midshipman's Fund. The checking account is at Crocker National Bank, Tennessee Street Office, 1660 Tennessee Street, Vallejo, CA. The Academy also has a savings account for the Midshipman's Fund. The savings account is used to be able to earn interest on the Midshipman's Fund. Interest earned from the savings account as of May 31, 1979 was \$81.38. The savings account is also at Crocker National Bank. The Academy is presently requesting approval from the Department of Finance, Fiscal System and Consulting Unit to have the account maintained outside the State treasury system.

The Academy presently has a checking account and two savings accounts for student body activities. It is called the Golden State Service Fund. The checking account and one savings account is maintained at Redwood Bank, 330 Sacramento Street, Vallejo. The other savings account is at Santa Barbara Savings, 1200 Tennessee Street, Vallejo. The savings account balance at Santa Barbara Savings

6 July 1979

at June 30, 1979 was \$15,000. The savings account balance at Redwood Bank was \$19,500 at June 30, 1979. The Academy is presently requesting approval from the Department of Finance, Fiscal System and Consulting Unit to have the accounts maintained outside the State Treasury System. The savings accounts are maintained to assure that a \$50 security deposit paid by each student can be refunded promptly when the student departs. Both the interest income and forfeited deposits are used for dormitory maintenance.

#### Bank Reconciliation

The monthly bank reconciliation for all the Academy's funds did not agree with the applicable general ledger balances. This has been corrected and all balances agree.

#### Revolving Fund

The Academy was not consistently preparing a monthly revolving fund reconciliation report as prescribed by Section 8193 of the State Administrative Manual. Starting June, 1979, the Academy is preparing the monthly revolving fund reconciliation report as required by Section 8193 of the State Administrative Manual.

The Academy was not maintaining a revolving fund receivable ledger to account for employee advances from the revolving fund, for discounted expenditures, or for advanced payments requested by the vendor. A revolving fund receivable ledger has been set up starting June, 1979.

#### Purchasing Procedures

In a few cases, the Academy had not controlled its purchases of goods and services by using sub-purchase orders. The deficiencies have been completely corrected. One employee had his position demoted by one classification for acquiring goods and services before sub-purchase orders are approved according to SAM Section 3571. Another received a warning reprimand.

#### Unrecorded Liabilities

Accounts payable representing valid expenditures of at least \$31,192 were not accrued at June 30, 1978. All expenditures and liabilities have been accrued and recorded at year end for the 6-20-79 fiscal year report.

#### Capital Outlay Fund for Public Higher Education

The advances to the Architecture Revolving Fund and accompanying reserve were overstated by \$927,002 at June 30, 1978. A journal entry was made on November 28, 1978 to correct this overstatement. The Academy has implemented procedures as prescribed in SAM Sections 1460.5, 10430, 104545, and 10531 for proper accounting of the Capital Outlay Fund.

#### Non-Governmental Cost Funds Financial Statements

Non-Governmental Cost Funds financial statements were not prepared at June 30, 1978. These statements will be prepared for the Special Deposit Fund, Golden State Service Fund, and Midshipman's Loan Fund. These statements will be prepared as prescribed in SAM Sections 7950 and 7960.

Mr. Robert L. Hamric  
Audit Manager

6 July 1979

Special Deposit Fund

The serious deficiency in the Special Deposit Fund presently is being corrected. Three CPA firms are bidding to do the Student Financial Aid audit required by Department of Health, Education, and Welfare for the period July 1, 1976 to June 30, 1978. One firm will be chosen and start on July 23, 1979.

Also George Foxworth, Accounting Systems Analyst for the Department of Finance, is presently setting up a complete new accounting system for student financial aids. The new system starts on July 1, 1979.

Midshipman's Loan Fund

The Academy has no record of the amounts and sources of these donated funds except what was provided by the California Maritime Academy Alumni Association at the time the Midshipman's Loan Fund was transferred to the Academy for administration. During the next fiscal year, the Academy will document sources for monies already received and maintain documentation for all monies as they are received.

The Capital Fund balances will not be charged or credited in the accounting cycle as additions and/or decreases to total contributions.

The person who approved the midshipman's loan application no longer will have the authority to sign the loan checks. This was corrected by requiring that the Accounting Officer of Business Manager sign all checks.

Golden State Service Fund (GSSF)  
Account Receivable

An invoice will be made out as of June 30, 1978 in the amount of \$1,049 to collect for the sale of inventory to R. C. Woolf on June 30, 1974. This inventory consisted largely of unsaleable goods.

Program Operations

The student activity account in the GSSF does not contain historical data and operating procedures for implementing the programs of the Golden State Service Fund. In the near future on each student activity account will have on file in the Commandant's office the applicable historical data and operating procedures to be followed.

Sincerely,

*T. C. Stewart*

T. C. STEWART  
Accounting Officer

TCS:dc

cc: Mr. Black  
Mr. Hughes

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
Secretary of State  
State Controller  
State Treasurer  
Legislative Analyst  
Director of Finance  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
California State Department Heads  
Capitol Press Corps